

November 30, 2022

## Keramika Indiana: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund based Cash Credit	2.50	2.50	[ICRA]B (Stable); reaffirmed
Long Term – Fund based Term Loan	7.90	7.90	[ICRA]B (Stable); reaffirmed
Short Term Non-Fund based	0.65	0.65	[ICRA]A4 reaffirmed
Unallocated Limits	0.95	0.95	[ICRA]B (Stable); reaffirmed
<b>Total</b>	<b>12.00</b>	<b>12.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The ratings reaffirmation for Keramika Indiana's (KI) is constrained by the firm's average financial risk profile, characterised by its small scale of operations, low profitability levels, leveraged capital structure, high working capital intensity and stretched liquidity position. The ratings factor in the intense competition faced by KI from imported backslash porcelain/mosaic tiles and substitute products such as digital wall tiles, and the cyclical nature in the real estate industry, which is the main end-user sector. The ratings consider the exposure of the firm's profitability to volatility in raw material and gas prices as well as to adverse foreign exchange fluctuations. ICRA also notes that KI is a partnership concern, so any significant withdrawals from the capital account would affect its net worth adversely.

The ratings, however, continue to favourably factor in the extensive experience of KI's promoters in the ceramic industry and the proximity to raw material sources by virtue of its presence at Morbi (Gujarat).

The Stable outlook reflects ICRA's opinion that the firm is expected to maintain its business position.

### Key rating drivers and their description

#### Credit strengths

**Extensive experience of promoters in ceramic industry** – The promoters have more than a decade of experience in the ceramic industry through their association with other companies such as Starco Ceramic and Range Ceramic Pvt. Ltd.

**Location-specific advantages** – The firm's sole manufacturing facility is in the ceramic tiles hub of Morbi (Gujarat), which enables it with easy access to quality raw materials and accessibility to nearby port for exports.

#### Credit challenges

**Small scale of operations and moderate financial risk profile** – The firm started its commercial operations in November 2020 and thus FY2022 was the first full year of its operations. It reported sales of Rs. 9.6 crore in FY2022 and Rs. 9.20 crore in H1 FY2023, led by ramp-up in sales volume and easing of pandemic-induced supply chain issues. Nonetheless, KI's operating profitability moderated sharply to 5.7% in H1 FY2023 from 24.4% in FY2022 due to the significant increase in gas prices. While liquidation of inventory led to improvement in working capital intensity (as reflected in NWC/OI, which moved from 45% for FY2022 to 21% in H1 FY2023), the decline in profitability has led to a deterioration in leverage and debt coverage indicators.

The key ratios, Total Debt/TNW, Total Debt/OPBDITA and interest coverage, declined to 2.4 times, 11.9 times and 1.1 times, respectively, as on September 30, 2022 from 2.1 times, 5.2 times and 2.2 times as on March 31, 2022. In the backdrop of the recent easing in gas prices, KI is expecting normalisation in its operating performance in H2 FY2023. Going forward, the firm's ability to ramp-up operations and improve the profitability levels remains a key rating monitorable.

**Vulnerability of profitability to adverse fluctuations in raw material prices, fuel prices and foreign exchange rates** – Raw materials and fuel are the two major components that determine the cost competitiveness in the ceramic industry. KI has little control over the prices of its key inputs – viz. natural gas (fuel) and raw materials - and thus its profit margins are exposed to adverse movement in their prices. Further, the firm has limited ability to pass on any upward movement in cost to the customers due to stiff competition. In addition, its profitability is vulnerable to any adverse forex movements as nearly 40% of KI's revenue is generated through exports (FY2022 data).

**Competition from imported tiles and substitute products; cyclical in real estate industry** – There are limited players in the manufacturing of backsplash porcelain mosaic tiles in the domestic market, but competition stems from established players, which import such tiles (from China, Vietnam, and Thailand). It faces competition from substitute products such as digital wall tiles, which are cheaper than backsplash tiles. The firm's profitability and cash flows are highly vulnerable to the cyclical in the real estate industry, which is the major end-user of ceramic tiles.

**Risks inherent in partnership firm** – Given the partnership nature of the firm, any capital withdrawal could adversely impact its capital structure.

### Liquidity position: Stretched

KI's liquidity position is expected to remain stretched due to sizeable repayment obligations over the next 12 months (~Rs. 0.8 crore in H2 FY2023 and Rs. 1.78 crore in FY2024) against which the accruals are likely to be lower. However, the bank limits worth Rs. 2.5 crore remained moderately utilised at 60% on an average over the 12-month period till September 2022, which provides some cushion. Timely and adequate funding support from the promoters or refinancing of debt, in case of cash flow mismatches remains crucial.

### Rating sensitivities

**Positive factors** – ICRA could upgrade KI's ratings if there is a substantial growth in revenues and improvement in operating margins and liquidity.

**Negative factors** – Pressure on KI's ratings could arise if there is a significant decline in revenues, lower-than-estimated operating margins or lack of timely support from the promoters. Further, deterioration in the working capital cycle, which impacts the liquidity position, could also trigger a rating downgrade.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the company's standalone financial statements.

## About the company

Established in 2019, Keramika Indiana (KI) is involved in manufacturing backsplash porcelain/ mosaic tiles at Morbi (Gujarat) with an installed capacity of 18,900 MTPA. KI has started its commercial operations in November 2020. The main promoters, Mr. Mayur Dadhaniya, Mr. Kuldip Padsumbiya, Mr. Ashok Adroja and Mr. Hemant Dadhaniya, have extensive experience of more than a decade in the ceramic industry through their association with other companies in the ceramic industry such as Starco Ceramic and Range Ceramic Pvt. Ltd.

## Key financial indicators (audited)

	FY2021	FY2022	H1 FY2023 (Provisional)
Operating income	1.2	9.6	9.2
PAT	-1.3	-0.2	0.1
OPBDIT/OI	-2.9%	24.4%	5.7%
PAT/OI	-104.0%	-1.6%	0.6%
Total outside liabilities/Tangible net worth (times)	2.3	2.7	3.1
Total debt/OPBDIT (times)	-335.4	5.2	23.8
Interest coverage (times)	-0.1	2.2	1.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

## Status of non-cooperation with previous CRA: Not applicable

Any other information: None

## Rating history for past three years

Instrument	Type	Current Rating (FY2023)		Chronology of Rating History for the Past 3 Years				
		Amount Rated (Rs. crore)	Amount Outstanding as on Nov 15, 2022 (Rs. crore)	Date & Rating on		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
				November 30, 2022	September 29, 2021	July 14, 2020	-	
1 Fund-based Cash credit	Long-term	2.50	NA	[ICRA]B(Stable)	[ICRA]B(Stable)	[ICRA]B+(Stable)	-	
2 Fund-based Term loan	Long-term	7.90	5.1	[ICRA]B(Stable)	[ICRA]B(Stable)	[ICRA]B+(Stable)	-	
3 Non-fund based BG	Short-term	0.65	NA	[ICRA]A4	[ICRA]A4	[ICRA]A4	-	
4 Unallocated limits	Long-term	0.95	NA	[ICRA]B (Stable)	[ICRA]B (Stable)	-	-	

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based Term loan	Simple
Long-term – Cash credit	Simple
Short-term – Bank guarantee	Very Simple
Long-term - Unallocated limits	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's

credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	July 27, 2020	~11.10%*	2027	7.9	[ICRA]B (Stable)
NA	Cash credit	NA	NA	NA	2.5	[ICRA]B (Stable)
NA	Bank guarantee	NA	NA	NA	0.65	[ICRA]A4
NA	Unallocated limits	NA	NA	NA	0.95	[ICRA]B (Stable)

\*Date of latest renewal letter; Source: Company

**Annexure II: List of entities considered for consolidated analysis: Not applicable**

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